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FISCAL IMPACT STATEMENT

LS 6206

BILL NUMBER: HB 1004

NOTE PREPARED: Dec 4, 2009

BILL AMENDED:

SUBJECT: Assessed Value of Homesteads and Farmland.

FIRST AUTHOR: Rep. Grubb

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ___ **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: This bill limits the annual increase in the gross assessed value of a homestead to 1% and of agricultural land to 2% unless the increase results from a factor that would have increased the assessed value even if neither an annual assessment adjustment nor a general reassessment applied.

Effective Date: January 1, 2011.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, the assessed value of real property is adjusted each year to reflect market changes. Annual adjustments for homesteads are based on local sales. Each year, the base rate for agricultural land is set by the Department of Local Government Finance (DLGF), based on a six-year rolling average of the capitalization of net cash rents and net operating income for farmland. Beginning with taxes payable in 2012, this bill would limit the annual assessed value adjustment to 1% for homesteads and 2% for farmland.

Current estimates for average residential trending rates in a county range from 0.32% to 2.57% for taxes payable in 2012 and from 0.82% to 6.06% for taxes payable in 2013. There are 36 counties with an estimated average residential trending rate above 1% for 2012 taxes and 54 counties above 1% for 2013 taxes.

The base value per acre of farmland is \$1,250 for taxes payable in 2010, and is currently estimated at \$1,400 for 2011, \$1,690 for 2012, and \$1,650 for 2013. Under this proposal, the base rate would be \$1,428 for 2012 and \$1,457 for 2013.

The caps on AV increases in this proposal would result in a smaller tax base than under current law. This would result in a higher tax rate and a shift of part of the property tax burden from some taxpayers to others, along with an increase in circuit breaker credits.

The statewide average tax rate per \$100 AV would increase by an estimated \$0.033 in 2012 and \$0.048 in 2013. Statewide, net property taxes would be lower under this bill than under current law for farmland and would be higher for all other property types in 2012. In 2013, net property taxes would be lower for farmland and homesteads and would be higher for all other property types. The higher tax rates would also cause TIF proceeds to increase. Circuit breaker credits would increase by an estimated \$11.1 M in 2012 and \$21.9 M in 2013. The table below contains estimates of these changes.

Estimated Net Property Tax and Circuit Breaker Changes				
Net Tax by Property Type	2012		2013	
Homesteads	+ 2.9 M	+ 0.2%	- 39.6 M	- 2.1%
Farmland	- 39.2 M	- 12.3%	- 26.5 M	- 8.6%
Other Residential	+ 4.6 M	+ 0.6%	+ 8.7 M	+ 1.1%
Commercial Apartments	+ 0.5 M	+ 0.2%	+ 1.4 M	+ 0.6%
Ag_Business (Except Farmland)	+ 3.2 M	+ 3.1 %	+ 3.1 M	+ 3.1%
Other Real Property	+ 10.9 M	+ 0.6%	+ 24.4 M	+ 1.4%
Personal Property	+ 8.6 M	+ 1.0%	+ 13.9 M	+ 1.6%
TIF Proceeds	+ 2.4 M	+ 0.5%	+ 6.1 M	+ 1.4%
Circuit Breaker Credits	+ 11.1 M	+ 2.5%	+ 21.9 M	+ 5.3%

While this analysis relies on estimates of county average changes in residential AV, different areas will have different impacts, based on neighborhood market conditions.

State Agencies Affected:

Local Agencies Affected: County assessors; Local taxing units impacted by circuit breaker credits.

Information Sources: *Home Price, Existing Average* historic series and forecast series, Global Insight; *Farmland Assessment For Property Taxes*, Larry DeBoer, Purdue University, http://www.agecon.purdue.edu/crd/localgov/Topics/Essays/Prop_Tax_FarmLand_Asmt.htm.

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